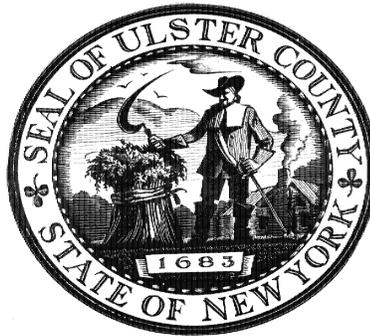


ULSTER COUNTY COMPTROLLER'S OFFICE

Elliott Auerbach, Comptroller

THE QUARTER IN REVIEW 4th QUARTER 2013



December 31, 2013

The mission of the Ulster County Comptroller's Office is to serve as an independent agency of the people and to protect the public interest by monitoring County government and to assess and report on the degree to which its operation is economical, efficient and its financial condition sound.

I. INTRODUCTION

This Quarterly Report (“Report”) is issued pursuant to Ulster County Charter (“Charter”) Section C-57(I). Our 1st Quarter 2013 Report focused in large part on the challenges faced by the County with respect to its financial oversight in connection with Charter changes adopted in the last quarter of 2012. Our 2nd Quarter Report noted the continued success of the transition in procedures and controls occasioned by the Charter changes and highlighted concerns with regard to the responsiveness of County administrative units to this Office’s inquiries and procedural recommendations. The 3rd Quarter Report noted the fiscal successes of the County and operational and accounting issues still of concern to our Office. As 2013 comes to a close and we look forward to 2014, this report will focus on (i) our 4th Quarter reports, (ii) identification of areas of inquiry in the 1st Quarter of 2014, and (iii) discussion of our Office’s initiative to become a recognized and accredited “audit shop” in furtherance of our charge as Comptroller.

II. CLAIMS AUDIT AND ACCOUNTING OVERSIGHT

A. The Claims Audit Process:

The Comptroller’s Office audits and certifies all claims and charges against the County. For the 4th Quarter of 2013, our claims auditing team audited 6,184 claims consisting of 11,923 individual transactions. These transactions amounted to approximately \$28,000,000 for all County administrative units. Additionally, our audit obligations require reviewing all employee reimbursements, which included 391 reimbursements amounting to \$51,790 and all election reimbursements, which totaled 778 reimbursements amounting to \$182,232.

As claims are examined our team of claims auditors confirms that each claim is supported by documentation appropriate to the nature of the claim. Where deficiencies or a lack of clarity in the claim require further due diligence, the issue is noted in our records as a “Claims Audit Issue” (“CAI”). **Vendor Claims: Table #1** below summarizes the CAIs we identified during the 4th Quarter of 2013, and details the amount of audited claims, along with a summary of our identified issues for each quarter of 2013.

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Table #1 : Issues with Vendor Claims For the Four Quarters of 2013									
1st Quarter 2013			2nd Quarter 2013		3rd Quarter 2013		4th Quarter 2013		
Total Dollar Value of Claims	\$	57,942,210	\$	31,283,191	\$	30,133,808	\$	28,352,869	
Total No. of Vendor Claims		6,559		6,181		5,610		6,184	
Total No. of Claims w/Issues Identified		232		137		94		87	
Percentage of Issues Compared to Claims		4%		2%		2%		1%	
Total Dollar Value of Invoices with Issues	*		\$	630,095	\$	526,081	\$	462,062	
Total Dollar Value of the Complete Claims with Issues	*		\$	1,052,473	\$	631,824	\$	560,028	
Total Dollar Savings to County	*		\$	(11,935)	\$	(30,683)	\$	(4,148)	
Summary of Issues Identified	No. of Issues	% of Issues to Total Issues	No. of Issues	% of Issues to Total Issues	No. of Issues	% of Issues to Total Issues	No. of Issues	% of Issues to Total Issues	
Data Entry Issues at Time of Invoicing	86	37%	57	42%	27	29%	33	38%	
Missing Documentation	58	25%	30	22%	17	18%	17	20%	
Other	34	15%	14	10%	28	30%	13	15%	
Contract/Bid Issues	28	12%	17	12%	17	18%	19	22%	
Missing Finance's Required Signature	26	11%	19	14%	5	5%	5	5%	

* Our Office began tracking this data in the 2nd Quarter of 2013.

Employee Reimbursements: Table #2 on the following page below summarizes employee reimbursement issues (“ERIs”), where problems were uncovered on 5% of the submitted vouchers. The ERIs of greatest concern were related to the category labeled “Other” in Table #2, with a 63% return rate. These ERIs included, but were not limited to, failure to include department head signatures on reimbursement forms, delays in submitting mileage reports, and driver permits not on file. Mileage discrepancies, although there has been some improvement, continues to be a concern with 32% of the vouchers being returned.

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Table #2 : Issues with Employee Reimbursement Claims for the Four Quarters of 2013								
1st Quarter 2013			2nd Quarter 2013		3rd Quarter 2013		4th Quarter 2013	
Total Dollar Value of Reimbursements	\$	54,113	\$	67,524	\$	63,436	\$	51,790
Total No. of Employee Reimbursements		439		484		480		391
Total No. of Issues Identified		28		23		23		19
Percentage of Issues Compared to Claims		6%		5%		5%		5%
Summary of Issues Identified								
	No. of Issues	% of Issues to Total Issues	No. of Issues	% of Issues to Total Issues	No. of Issues	% of Issues to Total Issues	No. of Issues	% of Issues to Total Issues
Conference/Notary Public Related Issues	7	25%	1	4%	0	0%	0	0%
Insufficient Address Information	7	25%	4	17%	0	0%	1	5%
Mileage Discrepancies	6	21%	12	53%	12	52%	6	32%
Other	3	11%	5	22%	10	44%	12	63%
No Documentation of Payment	5	18%	1	4%	1	4%	0	0%

Table #3 : Issues with Election Reimbursement Claims for the 2013 Election Year			
Total Dollar Value of Reimbursements	\$	182,232	
Total No. of Election Reimbursements		778	
Total No. of Issues Identified		45	
Percentage of Issues Compared to Claims		6%	
Summary of Issues Identified		No. of Issues	% of Issues to Total Issues
Math Errors		42	93%
Insufficient Address Information		1	2%
Other		2	5%

B. Bank Account Reconciliations & Collateral:

Article IX, § C-57 (B) tasks our Office with bank reconciliation oversight for approximately fifty Ulster County bank accounts held by seven independent financial institutions.

In performing the bank reconciliations, we identified concerns as to the number and management of bank accounts held by the County, as well as the method and timetable of accounting for, and booking of, certain transactions.

Article IX § C-57 (E) empowers our Office to prescribe the forms and methods of accounting. In accordance with that authority, we have recommended modifications in accounting forms and methods to the Executive’s Office and to the Finance Department, however, to date the modifications have not been adopted as County accounting practice. Failure to comply with best practice exposes the County to adverse findings by external auditors and increased risk related to accounting practices.

In any event, our Office performed the bank reconciliations for the 4th Quarter in accordance with its present charge under the Charter, and an analysis is contained herein below.

As of November 30th, 2013 the reconciliation process reveals the combined cash position of the County to be as follows:

Table #4 Combined Bank Reconciliation as of November 30, 2013		
Total Bank Balance as of November 30, 2013	\$	105,648,392
Plus Deposits in Transit		17,579,333
Less: Outstanding Checks		(24,382,661)
Unreconciled Differences		36,304
Book Balance as of November 30, 2013	\$	<u>98,881,368</u>

III. REPORTS ISSUED BY COMPTROLLER’S OFFICE

Summary of Reports:

Following is a summary of the reports issued by this Office in the 4th Quarter.

- ***Ulster County Sheriff Inmate Accounts – Release Date October 3, 2013*** – This report examined the Ulster County Inmate Accounts managed by the Ulster County Sheriff’s Office (UCSO). Inmate trust accounts are created in the name of prisoners as a repository for cash carried by inmates at time of booking, as well as cash received from relatives or friends

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during an inmate's incarceration. The money received may be used by inmates for commissary purchases during confinement and any unused funds are returned upon the prisoner's release.

While this report did point out that the cash collected on behalf of the inmates did reconcile to the accounting performed by the UCSO, some recommendations were made to enhance controls for the management of these accounts in an effort to decrease the risks inherent in maintaining funds held in trust. The recommendations made were the result of the following findings:

- Some bank reconciliations were not being prepared.
 - The trust account had outstanding checks dating back to 2010.
 - Inmate forms documenting their request for monies to be disbursed were not adequately filled out.
 - The disbursement request forms were not kept in a well-maintained filing system, with a number of requests missing.
 - UCSO was disbursing funds using two separate check stocks which do not guarantee accountability.
 - There was an inconsistency in maintaining a mail log which documents the items an inmate receives via mail.
 - Deposits were not made in a timely manner, strong internal controls over cash receipts instruct they be handled in a timely manner and deposited within a reasonable timeframe reducing the risk for loss or theft.
 - One employee was not preparing the daily deposit of cash receipts collected from inmates under dual control with the intake officer as required by UCSO procedures.
- ***Ulster County Non-Property Tax and Fee Revenue – Release Date October 7, 2013*** – This “Economic Indicators” report highlighted revenue figures collected from the Ulster County Finance Department, Health Department and Ulster County Clerk. These figures are sent by our Office to the U.S. Census Bureau to aid the Bureau of Economic Analysis to develop estimates of the Gross Domestic Product of our Nation, a key economic indicator. Our review focused on three categories of revenue generators aside from Real Property taxes which include sales taxes, license and permit fees and deed and mortgage taxes. The key points identified in this report are:
- During 2012, Ulster County reported over \$124 million from these three sources of non-property tax revenue.
 - The 4th Quarter of 2012 had the greatest revenue generated, which is assumed to be directly correlated to the holiday shopping season, where sales tax earned over \$30 million.
 - Since January 1, 2012, general sales and gross receipt taxes generated the most revenue for the County, accounting for nearly \$110 million.
 - Our analysis of the 1st half of 2012 to the 1st half of 2013 indicated non-property tax revenue generated about \$1.3 million less during the 1st half of 2013. The largest percentage decrease was seen in the category of license, permits and fees. However,

the largest dollar decrease was seen in the category of sales tax revenues which declined approximately \$1.5 million.

3. Wholly Exempt Properties- What do They Cost Ulster County Tax Payers? – Release Date December 31, 2013 – This “By the Numbers” report focused on the impact wholly exempt properties have on Ulster County tax payers. Real property taxes are the largest revenue generator for local governments, and accounted for 23% of the County’s General Fund Revenues for 2012. All New York State real property is subject to taxation unless explicitly exempt by law. This report detailed the dollar amounts exempted by wholly exempt properties, properties which are provided full tax relief. The details of this report are as follows:

- Ulster County had 2,240 properties in 2012 deemed to be wholly exempt from paying property taxes shifting approximately \$62 million dollars of taxes onto taxable parcels.
- The City of Kingston and Towns of Wawarsing and Esopus had the greatest number of parcels not subject to real property taxes with 374, 237, and 220 parcels, respectively.
- The largest tax burdens lie in the City of Kingston and Towns of New Paltz and Shawangunk, shifting \$32 million of lost tax revenue on to the taxpayers of those jurisdictions.
- The largest category of wholly exempt properties is owned by not-for-profit entities, accounting for 902 Ulster County parcels, or 37% of the wholly exempt properties.
- Local governments are the second highest category of exempt properties which constitute over 650 exempt parcels located throughout the County.
- The City of Kingston is home to a total of 188 properties owned by Ulster County, local governments, federally owned and state owned properties as well as 166 religious and not-for-profit properties.
- New York State Real Property Tax Law, §420-b, allows municipalities to adopt local laws by which organizations organized exclusively for bible, tract, benevolent, missionary, infirmary, scientific, literary, library, patriotic or historical, as well as others to be taxed if Ulster County and or its local municipalities were to adopt this legislation, adding the qualified classes to the tax rolls. This would provide relief to all current property tax payers.

IV. COMPTROLLER’S 1st QUARTER 2014

In the 1st Quarter of 2014, the Comptroller’s Office intends to release the following reports:

- **Hotel/Motel Tax Report** – In 2012 the County collected over \$1.1 million in tax revenue from the Hotel/Motel Occupancy tax revenue. In an effort to confirm the information provided by owners of established hotel and motels, our Office is in the process of conducting a review of the information provided to the Department of Finance along with field visits to select establishments within our sample. The objectives of the review are to provide reasonable assurance that the Department of Finance is collecting the full amount due by law and to identify any potential Occupancy Tax deficiencies.

- **Health Care Benefit Review** – Ulster County has a self-insured benefit plan that covers medical, dental, vision and prescription services for County employees, retirees, and dependents, at a cost of over \$27 million. Our Office is in the process of conducting a review of the health plan participants and their dependents listed to determine whether or not they meet the eligibility requirements.

V. SIGNIFICANT FOURTH QUARTER FISCAL EVENTS & UPDATES

A. Sales Tax Issue

The NY State Legislature failed to extend Ulster County's additional 1% sales tax rate during its 2013 session, and did not meet in special session to address the issue. Thus, the reduced rate (from 4% to 3%) applied to Ulster County transactions as of December 1, 2013. The earliest the 1% could be restored is likely February of 2014. The 2014 Adopted Budget takes into account the 1% loss on the County's sales tax in January using an estimated loss of revenue of roughly \$ 2.25 million gross. Prudently, the Executive Budget, adopted by the UC Legislature, takes a two-fold approach in budgeting for the loss thereafter. The month of February's sales tax, again roughly \$ 2.25 million has been offset by placing certain expenses into sequestration, in the Budget's contingency line. Those expenses included contract agency services, COLA increases for management, Sheriff equipment purchases, and a number of other operating expenses. If the sales tax were to be effective February 1, these expenses would be moved into their operating departments. If the 1% sales tax were to linger past February 1, each month which passes without state lawmakers restoring the 1% additional tax is projected to result in a loss of approximately \$ 1.9 million in revenues to Ulster County, which will result in the necessary curtailment or cutting of the contingency items and other expenses. Our Office will look back at the 1st Quarter impact of the sales tax crisis in our 2014 1st Quarter Report.

B. New Financial System Software

The 4th Quarter of 2013 saw significant advancement in an important fiscal initiative dating to 2011, as the County is in the process of implementing a new county-wide integrated financial management system to replace the system which was installed in 1997. The 2012-2017 Capital Program approved the planned replacement of the financial management system with its adoption December 2011. Accordingly, the process of replacing the current system began early in 2012 with initiation of solicitations from vendors using a request for proposal; evaluation of the responses by a comprehensive selection committee; acceptance of the proposal submitted by New World Systems (NWS), and requisite contract process and capital project establishment through the County Legislature. Meetings with NWS on implementation began early in 2013. The planned 'go-live' date for substantially all modules of the new software is the 2nd Quarter of 2014. The County Executive has put in place various committees comprised of representatives of pertinent County departments and Offices to advise and confirm the sufficiency of the implementation of the new system for the multitude of purposes it is meant to serve.

The new system is internet-based and uses current technologies to provide increased functionality and ease of use. The implementation project and capabilities of the new software

are creating opportunities to improve business processes providing for increased efficiency and accountability. The County is also implementing a document management system with the financial management system to enable significant efficiencies in document retrieval and storage. It will eliminate the necessity to make multiple copies of documents for access and use, and ultimate storage and management of such physical copies. Upgrades and improvements to the related computer hardware and other equipment will be made as needed for full implementation of the new financial management system. This investment in a new system should serve the County for at least the next 10 years.

Our Office is monitoring the implementation and installation of the system as it represents a significant opportunity for efficient and effective fiscal management and auditing practices, which will improve the real-time interaction of the County's administrative, accounting, and auditing functions, all to the benefit of Ulster County taxpayers.

VI. ESTABLISHING AND MAINTAINING AN INDEPENDENT PERFORMANCE AUDIT SHOP

In order to perform audits, it is necessary to follow established professional standards. These standards provide a framework for performing high quality audit work with competence, integrity, objectivity, and independence. During the 4th Quarter of 2013, our Office began the process of identifying and complying with the necessary requirements to ensure adequate adoption of these standards. We are pleased to report that as of January 1, 2014, the Ulster County Comptroller's Office will be fully compliant with accepted government auditing standards (GAGAS), commonly called "yellow book standards". This change will require our Office to receive peer reviews of our Audit process and reports, and will also allow our Office to participate in peer reviews of other government audits.

These yellow book standards state that an audit organization, or "audit shop", must comply with certain minimum standards in order to meet minimum professional standards. There are numerous standards related to the creation and review of work papers. The most important standards are as follows: (i) the independence of auditors, (ii) the proficiency of auditors, and (iii) the peer review of our audit shop at least once every three years.

Independence:

In order to be independent in fact and appearance, auditors must be free from conflicts of interest and free from interference in how they report their work. In Ulster County, the Comptroller is an independently elected official, but the level of independence actually inherent in the position is subject to question where the authority of the Office is not recognized by the other units of County government, such as, for instance, the refusal to adopt accounting practice changes in accordance with our recommendations, as noted above. The adoption of the Charter, as well as its revisions adopted in 2012, continue to leave "gaps" in the authority of the Office which lead to potential impairments of the Office's independence. In particular, the Office's independence and effectiveness for the People of Ulster is adversely impacted by the power of both the Executive and the Legislature to impact the Comptroller's budget, not only in terms of its aggregate budget, but also with respect to particular line items within that budget, such as

appropriate training, software and hardware, and adequate staffing and salaries to retain quality personnel. This has implications both for the sovereign power of the electorate as well as the efficient operation of government and the protection of County finances. Our Office is hopeful that these infringements can be addressed in 2014 with a careful review of the Charter provisions relating to the accounting and auditing function as well as some codified protections against budget restrictions which impair the Office's ability to discharge its duties.

Competence and Proficiency:

Auditors performing work in accordance with GAGAS have to maintain their professional competence through continuing professional education (CPE). Each auditor has to complete, every two years, at least 24 hours of CPE that directly relates to government auditing, the government environment, or a specific or unique environment in which the audited entity operates. This is the minimum standard, auditors that charge at least 20% of their time to GAGAS audits must increase this annual requirement to 80 hours every two years.

Annually the Comptroller must budget for this mandatory education requirement to be in compliance with GAGAS regulations.

Peer Review:

In order to be considered an "audit shop," it is mandatory that our Office must obtain an external peer review at least once every three (3) years that is sufficient in scope to provide a reasonable basis for determining whether, for the period under review, our system of quality control was suitably designed and verifies that we are following our implemented auditing systems.

To accomplish this requirement, our Office joined a professional organization during 2012, the Association of Local Government Auditors (ALGA). ALGA is committed to improving local government auditing through advocacy, collaboration, education, and training, while upholding and promoting the highest standards of professional ethics. In 1991 ALGA developed the Peer Review Program to assist local government audit organizations, such as our Office, in meeting these GAGAS peer review requirements. As of 2012 ALGA had performed over 330 peer reviews to its members.

Our staff has completed the required training to perform a peer review for other government entities and have currently completed the paperwork to accomplish this. When our Office is subject to a peer review, the only cost to having the review performed will be the travel expenses of two or three other ALGA peer reviewers, rather than contracting out to a Certified Public Accounting firm which would be much greater.

VII. CONCLUSION

Your Office of the County Comptroller continues to oversee the efficiency, fiscal responsibility and transparency of County government with the highest regard for the duties with which it is charged and the trust the People of Ulster have placed in us to do so. Our review of the 4th

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Quarter of 2013 indicates a continued commitment by County administrative units and employees to the same goals.